

Joe Morolong Local Municipality

(Registration number NC 451)
AUDITED ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended June 30, 2017

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Joe Morolong Local Municipality is local municipality performing functions as set out in the Constitution (Act no 105 of 1996)
Mayoral committee	
Executive Mayor	Councillor D Leutlwetse Councillor M Sephekolo Councillor P J Witbooi Councillor V Jordan Councillor L F Seikaneng
Councillors	Councillor L Kaebis Councillor O H Kgopodithata Councillor K P Mosegedi Councillor S Segano Councillor M Nhlapo Councillor G Kaotsane Councillor M Godisamang Councillor L Gwai Councillor N Morogong Councillor S Dioka Councillor O Gaobodiwe Councillor N Mokweni Councillor N Tswere Councillor J Block Councillor J Katong Councillor G Sekokodie Councillor K Modise Councillor O Mokgautsi Councillor T Sesing Councillor O Matsioloko Councillor O Earabang Councillor S Mmolaeng Councillor D Josop Councillor I Matebese
Grading of local authority	2
Accounting Officer	T J Gopetse
Chief Finance Officer (CFO)	B D Motlhaping
Accounting Officers	Mr T J Gopetse
Business address	D320 Cardington Road Churchill Village 8474
Auditors	Auditor General of South Africa

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The reports and statements set out below comprise the audited annual financial statements presented to the provincial legislature:

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
PAYE	Pay As You Earn
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Tax
WSOG	Water Services Operating Subsidy Grant

Relevant Legislation

Municipal Finance Management Act (Act no 56 of 2003)

Division of Revenue Act

The Income Tax Act

Value Added Tax Act

Municipal Structures Act (Act no 117 of 1998)

Municipal Systems Act (Act no 32 of 2000)

Municipal Planning and Performance
Management Regulations

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Water Services Act	(Act no 108 of 1997)
Housing Act	(Act no 107 of 1997)
Municipal Property Rates Act	(Act no 6 of 2004)
Electricity Act	(Act no 41 of 1987)
Skills Development Levies Act	(Act no 9 of 1999)
Employment Equity Act	(Act no 55 of 1998)
Unemployment Insurance Act	(Act no 30 of 1966)
Basic Conditions of Employment Act	(Act no 75 of 1997)
Supply Chain Management Regulations	(2005)
SALGBC - Salary and Wage Collective Agreement	
Infrastructure Grants	
SALBC Leave Regulations	
Labour Relations Act	

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Audited Annual Financial Statements for the year ended June 30, 2017

Accounting Officer's Responsibilities and Approval

The Accounting Officer are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the audited annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the audited annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the audited annual financial statements and was given unrestricted access to all financial records and related data.

The audited annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The audited annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

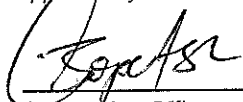
The Accounting Officer are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the audited annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Accounting Officer have reviewed the municipality's cash flow forecast for the year to June 30, 2018 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the Accounting Officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's audited annual financial statements.

The audited annual financial statements set out on pages 7 to 83, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2017 August 2016 and were signed on its behalf by:



Accounting Officer
Acting Municipal Manager

Joe Morolong Local Municipality

Thursday, August 31, 2017

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Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended June 30, 2017

Accounting Officer's Report

The accounting officers submit their report for the year ended June 30, 2017.

1. Review of activities

Main business and operations

The municipality is an investment and management entity with trading controlled entities engaged in joe morolong local municipality is local municipality performing functions as set out in the constitution (act no 105 of 1996). The municipality operates principally in South Africa and [state other countries].

The operating results and state of affairs of the municipality are fully set out in the attached audited annual financial statements and do not in our opinion require any further comment.

2. Going concern

We draw attention to the fact that at June 30, 2017, the municipality had accumulated deficits of R 1,776,800,944 and that the municipality's total liabilities exceed its assets by R 1,776,800,944.

The audited annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the Accounting Officers continue to procure funding for the ongoing operations for the municipality and that the subordination agreement these audited annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

3. Subsequent events

The accounting officers are not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name	Nationality	Changes
Mr. T.M. Bloom	South African	Resigned Sunday, April 30, 2017
Mr T J Gopetse	South African	Appointed Monday, May 1, 2017

5. Bankers

6. Auditors

Auditor General of South Africa will continue in office for the next financial period.

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Statement of Financial Position as at June 30, 2017

Figures in Rand	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	2,340,147	21,570,148
Inventories	4	1,301,004	2,427,047
Receivables from Exchange	5	44,737,887	4,160,780
Receivables from non-exchange transactions	6	12,847,817	6,395,103
VAT receivable	7	22,268,455	5,191,631
		83,495,310	39,744,709
Non-Current Assets			
Property, plant and equipment	8	1,803,725,312	1,665,274,369
Intangible assets	9	414,390	535,819
		1,804,139,702	1,665,810,188
Total Assets		1,887,635,012	1,705,554,897
Liabilities			
Current Liabilities			
Payables from exchange transactions	10	58,932,949	38,017,438
Finance lease obligation	11	15,281,911	18,243,143
Unspent conditional grants and receipts	13	336,303	381,030
Consumer deposit	53	68,579	400
Other financial liabilities	14	371,562	784,454
Bonus SEC Provision	12	-	139,477
Employee benefit obligation	16	130,430	116,388
Bank overdraft	3	29,053,447	4,567,556
		104,175,181	62,249,886
Non-Current Liabilities			
Other financial liabilities	14	1,296,475	1,153,229
Finance lease obligation	11	-	13,866,194
Employee benefit obligation	16	1,438,762	1,273,325
Provisions	17	3,923,650	3,518,969
		6,658,887	19,811,717
Total Liabilities		110,834,068	82,061,603
Net Assets		1,776,800,944	1,623,493,294
Accumulated surplus	18	1,776,800,944	1,623,493,294

* See Note 52 & 41

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Statement of Financial Performance

Figures in Rand	Note(s)	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	17,597,140	30,944,892
Miscellaneous Income		1,159,865	599,796
Rental of facilities and equipment	22	170,550	62,179
Interest from arrear accounts		11,010,893	7,337,104
Other income	23	479,462	2,389,079
Interest received - investment and Bank account	51	2,042,096	2,706,138
Total revenue from exchange transactions		32,460,006	44,039,188
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	24,966,992	10,418,008
Transfer revenue			
Government grants & subsidies	25	280,272,092	301,747,854
Total revenue from non-exchange transactions		305,239,084	312,165,862
Total revenue	19	337,699,090	356,205,050
Expenditure			
Employee related costs	26	65,440,283	59,323,106
Remuneration of councillors	27	9,253,137	8,692,472
Depreciation and amortisation	34	15,271,276	57,117,989
Finance costs	28	3,057,438	3,663,842
Debt Impairment	29	-	58,544
Repairs and maintenance		1,953,353	2,168,080
Bulk purchases	31	11,017,753	10,095,492
Contracted services	32	37,561,857	10,147,539
Transfers and Subsidies	33	25,224,516	60,603,698
General Expenses	35	28,338,535	34,405,075
Total expenditure		197,118,148	246,275,837
Operating surplus		140,580,942	109,929,213
Surplus for the year		140,580,942	109,929,213

* See Note 52 & 41

Joe Morolong Local Municipality

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,488,390,738	1,488,390,738
Adjustments		
Prior year adjustments	25,173,343	25,173,343
Balance at July 1, 2015 as restated*	1,513,564,081	1,513,564,081
Changes in net assets		
Surplus for the year	109,929,213	109,929,213
Total changes	109,929,213	109,929,213
Restated* Balance at July 1, 2016	1,636,220,002	1,636,220,002
Changes in net assets		
Surplus for the year	140,580,942	140,580,942
Total changes	140,580,942	140,580,942
Balance at June 30, 2017	1,776,800,944	1,776,800,944

* See Note 52 & 41

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Audited Annual Financial Statements for the year ended June 30, 2017

Cash Flow Statement

Figures in Rand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		6,235,207	14,868,337
Grants		280,272,092	271,261,899
Interest income		2,042,096	2,706,138
		<u>288,549,395</u>	<u>288,836,374</u>
Payments			
Employee costs		(74,693,420)	(68,015,578)
Suppliers		(80,621,749)	(74,821,312)
Finance costs		(3,057,438)	(3,663,842)
		<u>(158,372,607)</u>	<u>(146,500,732)</u>
Net cash flows from operating activities	37	<u>130,176,788</u>	<u>142,335,642</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(134,432,149)	(127,184,255)
Proceeds from sale of property, plant and equipment	8	-	482,194
Purchase of other intangible assets	9	(132,595)	(61,498)
		<u>(134,564,744)</u>	<u>(126,763,559)</u>
Net cash flows from investing activities		<u>(134,564,744)</u>	<u>(126,763,559)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(269,646)	(649,424)
Finance lease payments		(16,827,426)	(14,692,633)
		<u>(17,097,072)</u>	<u>(15,342,057)</u>
Net cash flows from financing activities		<u>(17,097,072)</u>	<u>(15,342,057)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(21,485,028)</u>	<u>230,026</u>
Cash and cash equivalents at the beginning of the year		(5,228,272)	16,772,566
Cash and cash equivalents at the end of the year	3	<u>(26,713,300)</u>	<u>17,002,592</u>

* See Note 52 & 41

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	24,808,653	-	24,808,653	17,597,140	(7,211,513)	50
Royalty income	19,828	(19,828)	-	1,159,865	1,159,865	
Rental of facilities and equipment	149,802	-	149,802	170,550	20,748	
Miscellaneous other revenue	2,987,451	-	2,987,451	11,010,893	8,023,442	
Other income - (rollup)	723,108	-	723,108	479,462	(243,646)	50
Interest received - investment	596,520	-	596,520	2,042,096	1,445,576	50
Total revenue from exchange transactions	29,285,362	(19,828)	29,265,534	32,460,006	3,194,472	

Revenue from non-exchange transactions

Taxation revenue						
Property rates	12,862,568	-	12,862,568	24,966,992	12,104,424	50
Transfer revenue						
Government grants & subsidies	277,110,317	-	277,110,317	280,272,092	3,161,775	50
Total revenue from non-exchange transactions	289,972,885	-	289,972,885	305,239,084	15,266,199	
Total revenue	319,258,247	(19,828)	319,238,419	337,699,090	18,460,671	

Expenditure

Employee costs	(57,557,456)	-	(57,557,456)	(65,440,283)	(7,882,827)	
Remuneration of councillors	(10,014,706)	-	(10,014,706)	(9,253,137)	761,569	
Depreciation and asset impairment	(10,000,000)	10,000,000	-	(15,271,276)	(15,271,276)	
Finance costs	(818,995)	-	(818,995)	(3,057,438)	(2,238,443)	
Repairs and maintenance	(2,311,281)	-	(2,311,281)	(1,953,353)	357,928	
Bulk purchases	(12,084,959)	-	(12,084,959)	(11,017,753)	1,067,206	
Contracted Services	(9,449,680)	-	(9,449,680)	(37,561,857)	(28,112,177)	
Transfers and Subsidies	(163,152,790)	-	(163,152,790)	(25,224,516)	137,928,274	
Debt Impairment	(46,581,020)	-	(46,581,020)	(28,338,535)	18,242,485	

Total expenditure	(311,970,887)	10,000,000	(301,970,887)	(197,118,148)	104,852,739	
Surplus before taxation	7,287,360	9,980,172	17,267,532	140,580,942	123,313,410	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	7,287,360	9,980,172	17,267,532	140,580,942	123,313,410	

Joe Morolong Local Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Statement of Financial Position

Assets

Current Assets

Inventories	2,550,000	-	2,550,000	1,301,004	(1,248,996)	50
VAT receivable	-	-	-	22,268,455	22,268,455	50
Consumer debtors	5,155,259	-	5,155,259	44,737,887	39,582,628	50
Cash and cash equivalents	10,258,335	7,889,066	18,147,401	2,340,147	(15,807,254)	50
	17,963,594	7,889,066	25,852,660	70,647,493	44,794,833	

Non-Current Assets

Property, plant and equipment	1,644,189,398	-	1,644,189,398	1,803,725,312	159,535,914	
Intangible assets	400,000	(300,000)	100,000	414,390	314,390	
Receivables from non-exchange transactions	-	-	-	53,844,831	53,844,831	
	1,644,589,398	(300,000)	1,644,289,398	1,857,984,533	213,695,135	
Total Assets	1,662,552,992	7,589,066	1,670,142,058	1,928,632,026	258,489,968	

Liabilities

Current Liabilities

Other financial liabilities	784,402	-	784,402	371,562	(412,840)	50
Finance lease obligation	-	-	-	15,281,911	15,281,911	
Payables from exchange transactions	13,740,219	-	13,740,219	59,001,530	45,261,311	50
Employee benefit obligation	-	-	-	130,430	130,430	
Unspent conditional grants and receipts	-	-	-	336,303	336,303	
Bank overdraft	-	-	-	29,053,447	29,053,447	
	14,524,621	-	14,524,621	104,175,183	89,650,562	

Non-Current Liabilities

Other financial liabilities	2,124,000	-	2,124,000	1,296,475	(827,525)	
Employee benefit obligation	-	-	-	1,438,762	1,438,762	
Provisions	1,710,209	-	1,710,209	3,923,650	2,213,441	
	3,834,209	-	3,834,209	6,658,887	2,824,678	
Total Liabilities	18,358,830	-	18,358,830	110,834,070	92,475,240	
Net Assets	1,644,194,162	7,589,066	1,651,783,228	1,817,797,956	166,014,728	

Net Assets

Net Assets Attributable to Owners of Controlling Entity

Reserves

Accumulated surplus	1,644,194,162	7,589,066	1,651,783,228	1,776,800,946	125,017,718	
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Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

Cash Flow Statement

Cash flows from operating activities

Receipts

Property rates, penalties & collection charges	10,933,183	-	10,933,183	-	(10,933,183)
Service charges	21,087,356	-	21,087,356	-	(21,087,356)
Grants	262,492,000	17,038,442	279,530,442	-	(279,530,442)
Interest income	42,500	-	42,500	-	(42,500)
Other revenue	1,221,160	-	1,221,160	-	(1,221,160)
	295,776,199	17,038,442	312,814,641	-	(312,814,641)

Payments

Suppliers and employees	(97,266,484)	-	(97,266,484)	-	97,266,484
Transfers and grants	(39,528,523)	-	(39,528,523)	-	39,528,523
Finance costs	(943,402)	34,593	(908,809)	-	908,809
	(137,738,409)	34,593	(137,703,816)	-	137,703,816

Net cash flows from operating activities	158,037,790	17,073,035	175,110,825	-	(175,110,825)
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Cash flows from investing activities

Purchase of property, plant and equipment	(137,325,764)	(12,342,179)	(149,667,943)	-	149,667,943
Repayment of loans from economic entities	(784,402)	-	(784,402)	-	784,402

Net cash flows from investing activities	(138,110,166)	(12,342,179)	(150,452,345)	-	150,452,345
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Net increase/(decrease) in cash and cash equivalents	19,927,624	4,730,856	24,658,480	-	(24,658,480)
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Cash and cash equivalents at the beginning of the year	2,054,712	-	2,054,712	-	(2,054,712)
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Cash and cash equivalents at the end of the year	21,982,336	4,730,856	26,713,192	-	(26,713,192)
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Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1. Presentation of Audited Annual Financial Statements

The audited annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These audited annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these audited annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These audited annual financial statements are presented in South African Rand, which is the functional currency of the Municipality.

1.2 Going concern assumption

These audited annual financial statements have been prepared based on the expectation that the Municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the audited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the audited annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the audited annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The Municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the key assumption assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

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Audited Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.3 Consolidation (continued)

Contingent provisions on entity combinations

Contingencies recognised in the current year required estimates and judgments, refer to note on entity combinations.

Useful lives and residual values

The Municipality reassesses the useful lives and residual values of property, plant and equipment, investment property and intangible assets on an annual basis. In reassessing the useful lives and residual values of property, plant and equipment, investment property and intangible assets management considers the condition and use of the individual assets, and base it on industry knowledge, to determine the remaining period over which the asset can and will be used and the residual value.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The Municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 16.

Effective interest rate

The Municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Long service awards

The long service awards liability arises from the municipality being a party to the Collective Agreement on Conditions of Service for Northern Cape Division of SALGBC. The long service awards plan is a defined benefit plan accounted for in terms of GRAP

1.4 Property, plant and equipment

Property, Plant and Equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of Property, Plant and Equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the Municipality; and
- the cost of the item can be measured reliably.

Property, Plant and Equipment is initially measured at cost.

The cost of an item of Property, Plant and Equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

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1.4 Property, plant and equipment (continued)

Where an item of Property, Plant and Equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of Property, Plant and Equipment have different useful lives, they are accounted for as separate items (major components) of Property, Plant and Equipment.

Costs include costs incurred initially to acquire or construct an item of Property, Plant and Equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of Property, Plant and Equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of Property, Plant and Equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of Property, Plant and Equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Land and Buildings which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, Plant and Equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of Property, Plant and Equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of Property, Plant and Equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of Property, Plant and Equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of Property, Plant and Equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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Accounting Policies

1.4 Property, plant and equipment (continued)

Property, Plant and Equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, Plant and Equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, Plant and Equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of Property, Plant and Equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	25-30
Improvements	Straight line	25-30
Specialized plant and equipment	Straight line	10-15
Other plant and machinery	Straight line	2-15
Office equipment	Straight line	3-15
Furniture and fittings	Straight line	5-15
Motor Vehicles-Specialized	Straight line	10-15
Motor vehicle-other	Straight line	5-15
Roads and paving	Straight line	10-100
Pedestrian malls	Straight line	15-30
Electricity	Straight line	10-100
Community facilities	Straight line	15-30
Recreational facilities	Straight line	15-30
Leased asset	Straight line	3-5

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of Property, Plant and Equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the Municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The Municipality assesses at each reporting date whether there is any indication that the Municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the Municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of Property, Plant and Equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

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Accounting Policies

1.4 Property, plant and equipment (continued)

The gain or loss arising from the derecognition of an item of Property, Plant and Equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of Property, Plant and Equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the Municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the Cash Flow Statement.

The Municipality separately discloses expenditure to repair and maintain Property, Plant and Equipment in the notes to the financial statements (see note 30).

The Municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the Municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality; and
- the cost or fair value of the asset can be measured reliably.

The Municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these Intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other Intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

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Accounting Policies

1.5 Intangible assets (continued)

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as Intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the Intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight line	5

The Municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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Accounting Policies

1.6 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

Initial recognition

The Municipality recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

The Municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The Municipality measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The Municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the Municipality analyses a concessionary loan into its component parts and accounts for each component separately. The Municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

Financial assets

Held-to-maturity investments are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Loans and receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest rate method less any impairment, with interest recognised on an effective yield basis.

Financial assets at fair value are initially and subsequently, at the end of each financial year, measured at fair value with the gain or loss being recognised in the statement of financial performance.

Available-for-sale assets are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the statement of financial performance.

Financial liabilities

Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulted gain or loss recognised in the statement of financial performance.

Financial liabilities held at amortised cost are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the statement of financial performance by applying the effective interest rate.

Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an Municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Available-for-sale financial assets

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

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Accounting Policies

1.6 Financial instruments (continued)

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

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Accounting Policies

1.6 Financial instruments (continued)

Impairment and uncollectibility of financial assets

The Municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in net assets and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in net assets shall be removed and recognised in the statement of financial performance even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from net assets and recognised in the statement of financial performance is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in statement of financial performance. Impairment losses recognised in the statement of financial performance for an investment in an equity instrument classified as available-for-sale are not reversed through the statement of financial performance.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss is recognised in the statement of financial performance, the impairment loss must be reversed, with the amount of the reversal recognised in the statement of financial performance.

Financial Assets carried at amortised cost

Accounts receivable encompass long-term debtors, consumer debtors and other debtors.

Initially accounts receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

An allowance for impairment of accounts receivable is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with IAS whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risks characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to shortterm receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the statement of financial performance.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the statement of financial performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial assets

The Municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the Municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the Municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the Municipality :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

If a transfer does not result in derecognition because the Municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the Municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the Municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The Municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The municipality transfers a financial asset if either it transfers the contractual rights to receive the cash flows of the financial asset or it retains the contractual rights to receive the cash flows of the financial asset.

The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the statement of financial performance.

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the Municipality directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the Municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the Municipality does not offset the transferred asset and the associated liability.

1.7 Statutory receivables

Identification

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Accounting Policies

1.7 Statutory receivables (continued)

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The Municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The Municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The Municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Derecognition

The Municipality derecognises a statutory receivable, or a part thereof, when:

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the Municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the Municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
 - derecognise the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

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Accounting Policies

1.8 Leases (continued)

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the Municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

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1.9 Inventories (continued)

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the Municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Subsequent Measurement

Consumable stores, raw materials, work-in-progress and finished goods

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge, they are valued at the lower of cost and current replacement cost.

Water Inventory

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the statement of financial position.

The basis of determining the cost of water purchased and not yet sold at reporting date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the first-in-first-out method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

Unsold Properties

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Cost also includes a portion of overhead costs, if this relates to development.

Other Arrangements

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any writedown of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

1.10 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

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1.10 Construction contracts and receivables (continued)

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by completion of a physical proportion of the contract work.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the Municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the Municipality.

Criteria developed by the Municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

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1.11 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The Municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the Municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the Municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount of a cash-generating asset is the higher of its fair value less costs to sell and its value in use.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the Municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the Municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the Municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

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1.11 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the Municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the Municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the Municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The Municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

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1.12 Intangible assets (continued)

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the Municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the Municipality.

Criteria developed by the Municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:
[Specify criteria]

Identification

The Municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the Municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the non-cash generating unit to which the asset belongs is determined. The recoverable service amount of a non-cash generating asset is the higher of its fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the Municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The Municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

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1.13 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains or losses are accounted for using the corridor method. Actuarial gains and losses are eligible for recognition in the statement of financial performance to the extent that they exceed 10 per cent of the present value of the gross defined benefit obligations in the scheme at the end of the previous reporting period. Actuarial gains and losses exceeding 10 per cent are spread over the expected average remaining working lives of the employees participating in the scheme.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

1.14 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

Remuneration to employees is recognised in the statement of financial performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a provision in the statement of financial position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

The municipality provides retirement benefits for its employees and councillors, and has both defined benefit and defined contribution post employment plans.

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1.14 Investments in controlled entities (continued)

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an Municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The Municipality measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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1.14 Investments in controlled entities (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The Municipality shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.15 Provisions and contingencies

Provisions are recognised when:

- the Municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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1.15 Interest in joint ventures (continued)

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the Municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The Municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the statement of financial performance as a finance cost as it occurs.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the Municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the Municipality considers that an outflow of economic resources is probable, an Municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it – this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

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Accounting Policies

1.15 Interest in joint ventures (continued)

Provisions for restructuring costs

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least:

- The business or part of a business concerned;
 - The principal locations affected;
 - The location, function, and approximate number of employees who will be compensated for terminating their services
- The expenditures that will be undertaken; and
 - When the plan will be implemented.

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Prepaid water and electricity

Revenue from the sale of water and electricity prepaid meter cards are recognised at the point of sale.

1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

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Accounting Policies

1.17 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the Municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the Municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service charges

Service charges are levied in terms of approved tariffs. Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property and water consumption, using the tariffs approved by council, and are levied monthly.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the Municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the Municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an Municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the Municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

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Accounting Policies

1.18 Statutory receivables (continued)

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an Municipality either receives value from another Municipality without directly giving approximately equal value in exchange, or gives value to another Municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting Municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the Municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the Municipality.

When, as a result of a non-exchange transaction, the Municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

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Accounting Policies

1.18 Statutory receivables (continued)

Taxes

The Municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the Municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The Municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the Municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The Municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the Municipality.

Where the Municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Public contributions

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the Municipality, and the fair value of the assets can be measured reliably.

Other donations and contributions

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the Municipality and the fair value of the assets can be measured reliably.

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Accounting Policies

1.18 Statutory receivables (continued)

Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure

Except for financial guarantee contracts, the Municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the Municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the Municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the Municipality disclose the nature and type of services in-kind received during the reporting period.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by Municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The audited annual financial statements and the budget are not on the same basis of accounting therefore a reconciliation between the statement of financial performance and the budget have been included in the audited annual financial statements. Refer to note .

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Audited Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.25 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling the activities of the municipality, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions. The municipality regards all individuals at senior management as key management per the definition of the financial reporting standard.

Close members of the family of key management personnel are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The Municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The Municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.27 Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

1.28 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

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Accounting Policies

1.28 Investments (continued)

At subsequent reporting dates, debt securities that the municipality has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment losses recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with over investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as either held for trading or available-for-sale, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the reporting date. Where securities are held for trading purposes, unrealised gains and losses are included in net surplus/(deficit) for the period. For available-for-sale investments, unrealised gains and losses are recognised directly in net assets, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in net assets is included in the net surplus/(deficit) for the period.

1.29 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The audited annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.30 Government grants and receipts

Government grants and receipts are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- The amount of the revenue can be measured reliably; and
- To the extent that there has been compliance with any restrictions associated with the grant.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the statement of financial performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in the statement of financial performance.

Revenue comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value added taxation.

1.31 Value added tax (VAT)

The municipality accounts for value added tax on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7(1)(a) of the VAT Act in respect of the supply of goods or services except where the suppliers are specifically zero rated in terms of section 11, exempt in terms of section 12 of the VAT Act or are scoped out for VAT purposes.

The municipality accounts for VAT on a monthly basis.

Finance income

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Accounting Policies

Interest earned on investments is recognised in the statement of financial performance on the time-proportionate basis that takes into account the effective yield on the investment.

Rentals received

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

Tariff charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant advertised tariff. This includes the issuing of licences and permits.

Revenue from agency services

Revenue for agency services is recognised on a monthly basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

Sale of goods (including houses)

Revenue from the sale of goods is recognised when all the following conditions have been met:

- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.32 Events after reporting date

Events after the reporting date that are classified as adjusting events have been accounted for in the annual financial statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in notes to the annual financial statements.

1.33 Commitments

Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance, but are included in the disclosure notes. A distinction is made between capital and current commitments.

Commitments are disclosed for:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

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Audited Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.34 Change in accounting estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality restated the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

The municipality identified and disclosed the impact of GRAP standards that have been issued but are not yet effective in accordance with the requirements of GRAP 3.

1.35 Investment property

Investment Property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment Property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the Investment Property will flow to the Municipality, and the cost or fair value of the Investment Property can be measured reliably.

Investment Property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where Investment Property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the Investment Property, the carrying amount of the replaced part is derecognised.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite

Compensation from third parties for Investment Property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as Investment Property in the following circumstances:

When classification is difficult, the criteria used to distinguish Investment Property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

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Audited Annual Financial Statements for the year ended June 30, 2017

Accounting Policies

1.35 Investment property (continued)

The Municipality separately discloses expenditure to repair and maintain Investment Property in the notes to the audited annual financial statements (see note).

The Municipality discloses relevant information relating to assets under construction or development, in the notes to the audited annual financial statements (see note).

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 108: Statutory Receivables	April 1, 2016	
• GRAP 32: Service Concession Arrangements: Grantor	April 1, 2016	
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	April 1, 2016	

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

2. New standards and interpretations (continued)

2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
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2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2017 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">GRAP 34: Separate Financial Statements	April 1, 2009	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 35: Consolidated Financial Statements	April 1, 2009	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 36: Investments in Associates and Joint Ventures	April 1, 2009	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 37: Joint Arrangements	April 1, 2009	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 38: Disclosure of Interests in Other Entities	April 1, 2009	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 110: Living and Non-living Resources	April 1, 2009	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 12 (as amended 2016): Inventories	April 1, 2018	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 27 (as amended 2016): Agriculture	April 1, 2018	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 31 (as amended 2016): Intangible Assets	April 1, 2018	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 103 (as amended 2016): Heritage Assets	April 1, 2018	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 110 (as amended 2016): Living and Non-living Resources	April 1, 2018	Unlikely there will be a material impact
<ul style="list-style-type: none">IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	April 1, 2019	Unlikely there will be a material impact
<ul style="list-style-type: none">Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	April 1, 2018	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 20: Related parties	April 1, 2017	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 26 (as amended 2016): Impairment of cash-generating assets	April 1, 2018	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 109: Accounting by Principals and Agents	April 1, 2017	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	April 1, 2018	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 18 (as amended 2016): Segment Reporting	April 1, 2018	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 17 (as amended 2016): Property, Plant and Equipment	April 1, 2018	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 16 (as amended 2016): Investment Property	April 1, 2018	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	April 1, 2018	Unlikely there will be a material impact

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

2. New standards and interpretations (continued)

2.4 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2017 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
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Income statement for the year June 30, 2018

The changes in the new standards and interpretations resulted in a decrease in basic earnings per share and diluted earnings per share as follows:

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
3. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Short-term deposits	2,340,147	21,570,148
Bank overdraft	(29,053,447)	(4,567,556)
	(26,713,300)	17,002,592
Current assets	2,340,147	21,570,148
Current liabilities	(29,053,447)	(4,567,556)
	(26,713,300)	17,002,592

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2017	June 30, 2016	June 30, 2015
ABSA Bank Limited 4054385292	879,248	587,374	1,059,615	879,248	21,081	1,047,359
Standard Bank-Primary account bank- 302854185	(93,406)	954,381	1,444,403	(93,403)	-	(17,170,605)
Short term investments	-	-	-	-	-	-
ABSA Bank Limited-Call account- 9288820487	278,765	261,528	246,131	-	-	-
First National Bank-Call Deposit- 62247117709	119,324	111,970	105,862	-	-	246,131
ABSA Bank Limited- Fixed deposit- 2073969801	34,628	32,872	31,135	-	-	-
ABSA Bank Limited- Depositor plus 9297200038	261,810	244,913	230,838	-	-	-
Standard Bank- Money Market call account- 548529973 003	81,467	76,735	72,414	-	-	-
Nedbank- Call deposit- 7881112840	1,093,663	20,836,800	-	-	-	-
Standard Bank- 548529973 002	5,465	-	-	-	-	-
Standard Bank- 508866243- 012CSC- JOHANNES 069	465,040	-	-	-	-	-
Total	3,126,004	23,106,573	3,190,398	785,845	21,081	(15,877,115)

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
4. Inventories		
Consumable stores	1,301,004	2,427,047
Inventory pledged as security		
No inventory was pledged as security		
5. Receivables from exchange transactions		
Gross balances		
Electricity	6,411,465	5,015,397
Water	55,239,238	40,725,383
Sewerage	5,379,422	24,386,474
Refuse	3,529,839	2,400,371
Service debtors	64,158,279	21,613,511
	134,718,243	94,141,136
Less: Allowance for impairment		
Electricity	(3,920,167)	(3,920,167)
Waste water	(38,218,281)	(38,218,281)
Sewerage	(22,837,200)	(22,837,200)
Refuse	(2,059,637)	(2,059,637)
Service debtors	(22,945,071)	(22,945,071)
	(89,980,356)	(89,980,356)
Net balance		
Electricity	2,491,298	1,095,230
Waste water	17,020,957	2,507,102
Sewerage	(17,457,778)	1,549,274
Refuse	1,470,202	340,734
Service debtors	41,213,208	(1,331,560)
	44,737,887	4,160,780
Electricity		
Current (0 -30 days)	301,438	130,873
31 - 60 days	91,989	54,731
61 - 90 days	137,420	169,270
91 - 120 days	196,593	131,830
121 - 365 days	1,763,858	608,526
	2,491,298	1,095,230
Water		
Current (0 -30 days)	2,025,423	824,730
31 - 60 days	1,605,696	775,675
61 - 90 days	1,612,592	906,697
91 - 120 days	1,454,320	-
121 - 365 days	10,322,926	-
	17,020,957	2,507,102

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
5. Receivables from exchange transactions (continued)		
Sewerage		
Current (0 -30 days)	-	204,314
31 - 60 days	-	182,329
61 - 90 days	-	179,489
91 - 120 days	-	176,599
121 - 365 days	-	806,543
	-	<u>1,549,274</u>
Refuse		
Current (0 -30 days)	138,612	120,983
31 - 60 days	131,291	107,469
61 - 90 days	128,862	105,698
91 - 120 days	126,645	6,584
121 - 365 days	944,792	-
	<u>1,470,202</u>	<u>340,734</u>
Sundry debtors		
Current (0 -30 days)	202,764	-
31 - 60 days	560,868	-
61 - 90 days	52,320	-
91 - 120 days	45,431	-
121 - 365 days	40,351,825	-
	<u>41,213,208</u>	<u>-</u>

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
5. Receivables from exchange transactions (continued)		
Summary of debtors by customer classification		
Household		
Current (0 -30 days)	2,897,808	2,162,979
31 - 60 days	2,733,321	1,236,795
61 - 90 days	2,236,266	1,606,959
91 - 120 days	9,137,731	4,208,300
121 - 365 days	11,614,439	20,581,839
	28,619,565	29,796,872
Industrial/ commercial		
Current (0 -30 days)	1,533,264	1,016,759
31 - 60 days	804,456	582,680
61 - 90 days	831,435	830,624
91 - 120 days	6,041,836	672,126
121 - 365 days	21,989,133	9,237,198
	31,200,124	12,339,387
National and provincial government		
Current (0 -30 days)	140,040	130,312
31 - 60 days	128,555	38,864
61 - 90 days	127,597	59,718
91 - 120 days	2,592,319	42,436
121 - 365 days	4,580,717	5,319,546
	7,569,228	5,590,876
Total		
Current (0 -30 days)	4,574,601	3,527,264
31 - 60 days	3,670,410	1,937,391
61 - 90 days	3,198,567	2,591,282
91 - 120 days	17,792,656	5,002,409
121 - 365 days	38,338,853	70,272,436
	67,575,087	83,330,782
Less: Allowance for impairment	(22,837,200)	(79,170,002)
	44,737,887	4,160,780
Less: Allowance for impairment		
Current (0 -30 days)	(67,143,156)	(31,414,098)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(67,143,156)	(31,414,098)
Debt impairment written off against allowance	(22,837,200)	(58,566,258)
	(89,980,356)	(89,980,356)

Consumer debtors pledged as security

No receivables from exchange transactions have been pledged as security..

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
6. Receivables from non-exchange		
Gross balances		
Consumer debtors - Rates	53,844,831	26,788,373
Less: Allowance for impairment		
Consumer debtors - Rates	(40,997,014)	(20,393,270)
Net balance		
Consumer debtors - Rates	12,847,817	6,395,103
Rates		
Current (0 -30 days)	1,669,944	1,942,091
31 - 60 days	1,054,040	776,320
61 - 90 days	1,045,134	773,661
91 - 120 days	9,078,699	2,903,031
	12,847,817	6,395,103
7. VAT receivable		
VAT	22,268,455	5,191,631

8. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Community	139,275,425	(33,655,262)	105,620,163	139,275,425	(28,814,704)	110,460,721
Computer equipment	3,083,209	(2,155,292)	927,917	2,526,533	(1,724,564)	801,969
Furniture and fixtures	2,737,267	(2,103,511)	633,756	2,392,587	(1,897,140)	495,447
Infrastructure	1,671,894,050	(187,491,768)	1,484,402,282	1,581,227,189	(237,474,790)	1,343,752,399
Land	7,169,289	-	7,169,289	7,169,290	-	7,169,290
Motor vehicles	2,367,553	(1,352,709)	1,014,844	2,367,552	(825,698)	1,541,854
Finance leased asset	46,868,252	(14,019,731)	32,848,521	46,868,252	(5,630,104)	41,238,148
Other property, plant and equipment	3,178,464	(1,883,199)	1,295,265	2,919,223	(1,469,212)	1,450,011
Work in progress - Infrastructure	169,813,275	-	169,813,275	158,364,530	-	158,364,530
Total	2,046,386,784	(242,661,472)	1,803,725,312	1,943,110,581	(277,836,212)	1,665,274,369

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
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8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Transfers received	Depreciation	Total
Community	110,460,721	-	-	(4,840,558)	105,620,163
Computer equipment	801,969	556,676	-	(430,728)	927,917
Furniture and fixtures	495,447	344,680	-	(206,371)	633,756
Infrastructure	1,343,752,399	430,684	182,933,507	(42,714,308)	1,484,402,282
Land	7,169,290	(1)	-	-	7,169,289
Motor vehicles	1,541,854	-	-	(527,010)	1,014,844
Other leased Assets # 1	41,238,148	-	-	(8,389,627)	32,848,521
Other property, plant and equipment	1,450,011	259,241	-	(413,987)	1,295,265
Work in progress	1,602,017	105,463,121	-	-	107,065,138
	1,508,511,856	107,054,401	182,933,507	(57,522,589)	1,740,977,175

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Depreciation	Total
Community	110,605,509	-	(144,788)	110,460,721
Computer equipment	807,596	-	(5,627)	801,969
Furniture and fixtures	579,549	-	(84,102)	495,447
Infrastructure	909,897,581	433,854,818	-	1,343,752,399
Land	7,169,290	-	-	7,169,290
Motor vehicles	4,671,873	-	(3,130,019)	1,541,854
Other leased Assets # 1	-	46,802,970	(5,564,822)	41,238,148
Other property, plant and equipment	2,159,867	-	(709,856)	1,450,011
Work in progress	192,377,999	2,315,320	(36,328,789)	158,364,530
	1,228,269,264	482,973,108	(45,968,003)	1,665,274,369

Pledged as security

The municipality did not pledge any of its assets as security.

All property, plant and equipment is being fully utilised by the municipality. There is therefore no idle property, plant and equipment.

The carrying amount of property, plant and equipment does not materially differ to the fair value of the disclosed property, plant and equipment.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Assets subject to finance lease (Net carrying amount)

Other leased Assets # 1	32,848,521	41,238,148
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Reconciliation of Work-in-Progress 2017

Reconciliation of Work-in-Progress 2016

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
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9. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	964,595	(550,205)	414,390	832,000	(296,181)	535,819

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software, other	535,819	132,595	(254,024)	414,390

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Total
Computer software	474,321	61,498	535,819

10. Payables from exchange transactions

Trade payables	3,626,584	3,131,305
Accrued expense	5,422,331	4,523,669
Retention fees	17,905,396	12,906,171
Accrued leave pay	3,834,176	2,791,490
Unallocated deposits	-	11,981
Sundry deposits	668,935	668,935
Other payables	14,924,290	2,868,846
Debtors with credit balances	9,561,018	9,988,627
13th Cheque	2,489,542	1,126,414
Other Creditors #6	500,677	-
	58,932,949	38,017,438
Other payables		
Bonus PAYE-section 57	-	139,477

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
11. Finance lease obligation		
Minimum lease payments due		
- within one year	13,964,463	-
Non-current liabilities	-	13,866,194
Current liabilities	15,281,911	18,243,143
	15,281,911	32,109,337

It is Municipality policy to lease certain [property]motor vehicles and equipment under finance leases.

The average lease term was 3 years and the average effective borrowing rate was 24% (2015: -%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The Municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .

Defaults and breaches

There were no defaults and breaches in the current financial year noted.

Market risk

The carrying amounts of finance lease liabilities are denominated in the following currencies:

Rand	13,964,463	32,109,337
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For details of sensitivity of exposures to market risk related to finance lease liabilities, as well as liquidity risk refer to note .

The fair value of finance lease liabilities approximates their carrying amounts.

12. Bonus Sec 57

Unallocated receipts	-	139,477
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The amount of liabilities forgiven is R - (2016: R -).

13. Unspent conditional grants and receipts

In the current year the municipality have unspent conditional grants in Library grant, Finance Management Grant and EPWP .

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Library Grant,FMG and EPWP	336,303	381,030
Movement during the year		
Balance at the beginning of the year	381,030	-
Additions during the year-EPWP and FMG	76,687	381,030
Income recognition during the year	(121,414)	-
	336,303	381,030

See note 25 for reconciliation of grants from National/Provincial Government. Municipality did not spend all money received in Library, FMB and EPWP .

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
14. Long-term liabilities		
At amortised cost		
Development Bank of South Africa- Short term portion	371,562	784,454
Loan number:	101251/1	
Starting date:	01/07/2007	
Redemption date:	30/06/2017	
Capital and Interest repayment frequency:	6 Months	
Interest rate:	1.000% (Fixed)	
Development Bank of South Africa	1,296,475	1,153,229
Loan number:	101797/1	
Starting date:	01/07/2011	
Redemption date:	30/06/2027	
Capital and Interest repayment frequency:	6 Months	
Interest rate:	8.848% (Fixed)	
	1,668,037	1,937,683
Total other financial liabilities	1,668,037	1,937,683
Non-current liabilities		
At amortised cost	1,296,475	1,153,229
Current liabilities		
At amortised cost	371,562	784,454
15. VAT payable		
16. Employee benefit obligations		
The amounts recognised in the statement of financial position are as follows:		
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(1,569,192)	(1,389,713)
Non-current liabilities	(1,438,762)	(1,273,325)
Current liabilities	(130,430)	(116,388)
	(1,569,192)	(1,389,713)
[Provide a brief description of the link between the reimbursement right(s) and the related obligation]		
The fair value of plan assets includes:		
Changes in the present value of the defined benefit obligation are as follows:		
Opening balance	1,389,713	-
Assumed in an entity combination	-	1,389,713
Net expense recognised in the statement of financial performance	179,479	-
	1,569,192	1,389,713

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
16. Employee benefit obligations (continued)		
Net expense recognised in the statement of financial performance		
Current service cost	224,027	-
Interest cost	113,944	-
Actuarial (gains) losses	(42,104)	-
Settlement	(116,388)	-
	<u>179,479</u>	<u>-</u>

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.44 %	- %
Expected increase in salaries	6.26 %	- %
Net effective discount rate	2.05 %	- %

The salaries used in the valuation include an assumed increase on 1 July 2017 of 7.36% as per the SALGBC Circular No. 02/2017. The next salary increase was assumed to take place on 1 July 2018.

The effect of the major categories of plan assets is as follow: [state effect]

Salaries - Changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases: [provide details]

The basis on which the discount rate has been determined is as follow: [state basis]

The basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets, is as follows:

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to 187 employees. The municipality uses a defined contribution provident fund with Cape Joint Retirement Fund, which is subject to the Pensions Fund Act for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

The total of expenses paid to the employees defined contribution plan(s), is as follows:

2015

Councillors Pension Fund

Cape Retirement Fund

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
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17. Provisions

Reconciliation of provisions - 2017

	Opening Balance	Additions	Reversed during the year	Total
Provision for landfill site	3,518,969	404,681	-	3,923,650
Other provisions	1,126,416	-	(1,126,416)	-
	4,645,385	404,681	(1,126,416)	3,923,650

Reconciliation of provisions - 2016

	Opening Balance	Additions	Reversed during the year	Total
Provision for landfill site	1,565,000	1,953,969	-	3,518,969
Other provisions	-	-	1,126,416	1,126,416
	1,565,000	1,953,969	1,126,416	4,645,385

Environmental rehabilitation provision

Provision for environmental rehabilitation

In terms of the licencing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs. A valuation was performed by independent experts in 30 June 2016 and current year provision was adjusted by prime rate of 10.50% plus 1%.

Provision for long service awards

Discount Rate: IAS19 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant and as prescribed in GRAP25, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 7.66% per annum has been used. This rate does not reflect any adjustment for taxation. This is derived by using a liability-weighted average of the yields corresponding to the average term until payment of long service awards, for each employee. The corresponding liability-weighted index-linked yield is 1.13%. These rates do not reflect any adjustment for taxation.

18. Accumulated surplus

19. Revenue

Government grants & subsidies	280,272,092	301,747,854
Interest received - investment	2,042,096	2,706,138
Miscellaneous other revenue	11,010,893	7,337,104
Other income - (rollup)	479,462	2,389,079
Property rates	24,966,992	10,418,008
Rental of facilities and equipment	170,550	62,179
Royalty income	1,159,865	599,796
Service charges	17,597,140	30,944,892
	337,699,090	356,205,050

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
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19. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Interest received - investment	2,042,096	2,706,138
Miscellaneous other revenue	11,010,893	7,337,104
Other income - (rollup)	479,462	2,389,079
Rental of facilities and equipment	170,550	62,179
Royalty income	1,159,865	599,796
Service charges	17,597,140	30,944,892
	32,460,006	44,039,188

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	24,966,992	10,418,008
Transfer revenue		
Government grants & subsidies	280,272,092	301,747,854
	305,239,084	312,165,862

20. Service charges

Sale of electricity	4,584,267	5,259,100
Sale of water	10,000,528	22,822,755
Solid waste	1,077,561	976,133
Sewerage and sanitation charges	1,934,784	1,886,904
	17,597,140	30,944,892

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
21. Property rates		
Rates received		
Agricultural	25,500,471	24,572,449
Commercial	7,248,750	1,321,171
Residential	12,369,739	7,460,408
State	3,847,887	-
Less: Rebates	(23,999,855)	(22,936,020)
	(7,782,229)	(15,475,612)
	24,966,992	10,418,008

Property rates are levied monthly on a fair market value on properties and are payable the 1st working day of each month.

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

Valuations

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Approved terric is applied to property valuations to determine assessment rates for different categories e.g residential rates have thier own tarrif rates. Rebates of) are granted to agriculture. residential and state property owners.

Rates are levied on an annual basis with the final date for payment being Friday, June 30, 2017 . Interest at prime plus 1% per annum.

The new general valuation will be implemented on 01 July 2018.

22. Rental of facilities and equipment

Premises		
Premises	19,996	17,437
Facilities and equipment		
Rental of facilities	150,554	44,742
	170,550	62,179

23. Other income

Admin fees	12,752	14,885
Cemetry fees	254	228
Grading fees	29,167	22,025
Insurance claims received	2,862	461,226
Miscellanoues Income	10,140	-
Other income 20	82,632	-
Photocopies	7,927	20,738
Profit on disposal of assets	-	1,422,204
Skills development claims income	-	8,008
Telephone cost reclaimed	101,561	236,382
Tender documents	156,930	133,055
Water connection fees	75,237	70,328
	479,462	2,389,079

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
24. MISCELLANEOUS INCOME		
MISCELLANEOUS INCOME	479,462	2,389,079

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
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25. Government grants and subsidies

Operating grants

Equitable share	110,502,871	112,302,620
Municipal Systems Improvement Grant	-	930,000
Financial Management grant	1,742,408	1,675,000
Library grant	1,869,765	371,470
	114,115,044	115,279,090

Capital grants

Rural Household Infrastructure Grant	-	14,849,510
Provincial Dept of Housing grant	9,615,250	13,775,748
Municipal Infrastructure Grant (MIG)	57,839,000	63,599,000
Water Operation and Subsidy Grant	-	22,500,000
South 32 Grant	12,477,893	9,408,506
Municipal Water Infrastructure Grant (MWIG)	-	60,000,000
Extended Public Works Programme (EPWP)	1,040,905	2,336,000
Water Service Infrastructure	85,184,000	-
	166,157,048	186,468,764
	280,272,092	301,747,854

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 50 kw free electricity and register is available for registered indigent linked to eskom which is funded from the equitable share grant. Water is free for community and standpipe is prepaid water and 6kl free water is linked.

Extended Public Works Programme (EPWP)

Current-year receipts	1,050,000	2,336,000
Conditions met - transferred to revenue	(1,040,905)	(2,336,000)
	9,095	-

EPWP Grant is used to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in the following identified focus areas, in compliance with the EPWP guidelines: road maintenance and the maintenance of buildings: low traffic volume roads and rural roads; basic services infrastructure, including water and sewer reticulation, sanitation, pipelines(excluding bulk infrastructure); other economic and social infrastructure; tourism and cultural industries; waste management; parks and beautification; sustainable land based livelihoods; social services programmers;health service programmers; and community safety programmers .

Financial Management grant

Current-year receipts	1,810,000	1,675,000
Conditions met - transferred to revenue	(1,742,408)	(1,675,000)
	67,592	-

To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

Municipal Infrastructure Grant (MIG)

Current-year receipts	57,839,000	63,599,000
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Joe Morolong Local Municipality

(Registration number NC 451)

Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
25. Government grants and subsidies (continued)		
Conditions met - transferred to revenue	(57,839,000)	(63,599,000)
	-	-

To provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions, servicing poor communities.

Library grant, FMG and EPWP

Balance unspent at beginning of year	381,030	381,030
Current-year receipts	1,763,000	752,500
Conditions met - transferred to revenue	(1,869,764)	(371,470)
Unspent grant-FMG and EPWP	62,037	(381,030)
	<u>336,303</u>	<u>381,030</u>

Maintain existing library facilities assist in supervision and administration of staff in public libraries; Establish library structures: Friends; committees; Support library awareness programmes; Collect revenue from public libraries and deposit into municipal bank accounts.

Municipal Water Infrastructure Grant (MWIG)

Current-year receipts	-	60,000,000
Conditions met - transferred to revenue	-	(60,000,000)
	-	-

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

Financial Management grant

Current-year receipts	-	930,000
Conditions met - transferred to revenue	-	(930,000)
	-	-

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

Rural Household Infrastructure Grant

Current-year receipts	-	14,849,510
Conditions met - transferred to revenue	-	(14,849,510)
	-	-

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

Water Operation and Subsidy Grant

Current-year receipts	-	22,500,000
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Joe Morolong Local Municipality

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Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
25. Government grants and subsidies (continued)		
Conditions met - transferred to revenue	-	(22,500,000)
	-	-

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

South 32 Grant

Current-year receipts	12,477,893	9,408,506
Conditions met - transferred to revenue	(12,477,893)	(9,408,506)
	-	-

The subsidy is utilized to subsidise, refurbish and restore the functionality of water services schemes previously owned and/or operated by the Department of Water Affairs or by other agencies on behalf of the Department.

Provincial Dept of Housing grant

Current-year receipts	9,615,250	13,775,748
Conditions met - transferred to revenue	(9,615,250)	(13,775,748)
	-	-

To provide funding for the creation of sustainable and integrated human settlements

Water Service Infrastructure

Current-year receipts	85,184,000	-
Conditions met - transferred to revenue	(85,184,000)	-
	-	-

To facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability of services in prioritised district municipalities, especially in rural municipalities; to provide interim, intermediate water and sanitation services that ensure the provision of services to identified and prioritised communities, including through spring protection, drilling, testing and equipping of boreholes and on-site solutions; to support drought relief projects in affected municipalities

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Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
26. Employee related costs		
Basic	32,633,985	30,765,207
Bonus	4,799,728	2,011,049
Cell Phone Allowance	649,900	499,800
Pension Fund	5,353,605	4,928,962
Housing benefits and allowances	2,767,493	2,528,927
Leave pay provision charge	3,834,176	415,714
Long-service awards	179,479	2,207,732
Medical aid - company contributions	3,441,946	3,177,775
Industrial Council	17,833	16,952
Overtime payments	1,775,884	1,766,348
SDL	497,793	489,778
Transport allowance (bus coupons)	6,624,271	7,159,443
Travel, motor car, accommodation, subsistence and other allowances	2,562,488	3,068,459
UIF	301,702	286,960
	65,440,283	59,323,106

Key management personnel:

Remuneration of municipal manager

Annual Remuneration	610,457	-
Subsistence Allowance	87,000	-
Public Office Allowance	80,000	-
Cell Phone Allowance	35,000	-
Transport Allowance	300,000	-
Travel Claim received	93,338	-
Leave days sold	21,284	-
	1,227,079	-

Mr T.M. Bloom was appointed as municipal manager on 2 February 2012, his contract expired 30 April 2017 and was terminated by Municipality.

Remuneration of Chief Finance Officer

Annual Remuneration	451,126	-
Subsistence Allowance	60,000	-
Cell Phone Allowance	14,400	-
Transport Allowance	192,000	-
Travel Allowance	62,556	-
Housing Allowance	185,784	-
Leave days sold	80,300	-
	1,046,166	-

Mrs. B.D..Mothlaping was appointed as chief financial officer on 1 June 2012, she was still the active Acting chief financial officer on year end.

Remuneration of the corporate services manager

Annual Remuneration	423,817	-
Public Office Allowance	77,097	-
Cell Phone Allowance	14,400	-
Transport Allowance	210,000	-
Travel Claim Received	24,658	-
Housing Allowance	177,996	-
Acting Allowance	78,516	-

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Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
26. Receivables from non-exchange (continued)	1,006,484	-
Remuneration of the community services manager		
Annual Remuneration	480,000	-
Public Office Allowance	61,116	-
Cell Phone Allowance	14,400	-
Transport Allowance	155,794	-
Travel Claim Received	54,708	-
Housing Allowance	192,000	-
	958,018	-

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Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
26. Receivables from non-exchange (continued)		
Remuneration of the technical services manager		
Annual Remuneration	524,998	-
Cell Phone Allowance	13,200	-
Transport Allowance	192,000	-
Travel Claim Received	148,005	-
Housing Allowance	171,912	-
	1,050,115	-
Remuneration of the Local Economic Development manager		
Annual Remuneration	433,413	-
Public Office Allowance	77,097	-
Cell Phone Allowance	3,600	-
Travel Allowance	224,000	-
Travel Claim received	14,659	-
Housing Allowance	154,400	-
Back pay	4,800	-
	911,969	-

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
27. Remuneration of councillors		
Mayor	404,245	-
Speaker	352,852	-
Councillors	4,548,962	4,962,383
Councillors' pension contribution	845,027	874,774
Travel Allowance	2,434,707	2,157,977
Data and cell phone allowance	667,344	697,338
	9,253,137	8,692,472

Full time councillors	Annual Remuneration	Data and Cell Phone Allowance	Travel Allowance	Travel claim	Pension Allowance	Back Pay
Mayor-Cllr D Leutlwtse	382,084	20,551	80,095	-	65,776	1,610
Speaker-Cllr M Sephekolo	326,613	24,629	135,782	24,084	57,463	1,610
Chief Whip-Cllr P J Witbooi	277,823	20,551	115,691	89,778	47,306	1,610
	986,520	65,731	331,568	113,862	170,545	4,830

Executive Committee Members	Annual Remuneration	Data and Cell Phone allowance	Travel Allowance	Travel claim	Pension Allowance	Back Pay
Cllr V Jordan	290,333	24,629	122,012	16,263	49,235	1,610
Cllr S Segame	290,333	24,629	122,012	33,822	51,164	1,610
Cllr L Seikaneng	277,823	20,551	118,808	68,994	47,306	1,610
Cllr L Kaebis	149,525	20,551	34,014	-	24,687	-
	1,008,014	90,360	396,846	119,079	172,392	4,830

Ordinary Councillors	Annual Remuneration	Data and Cell Phone Allowance	Travel Allowance	Travel Claim	Pension Allowance	Back Pay
Cllr E O Leshope	41,248	2,039	16,345	32,639	4,914	-
Cllr O H Kgopodithata	131,607	24,629	59,602	40,314	23,225	6,556
Cllr T M Mokgoje	16,194	2,039	6,999	1,793	1,929	-
Cllr K M Ditshetelo	16,194	2,039	6,999	1,929	-	-
Cllr B M Mbolekwa	41,248	2,039	16,345	5,715	4,914	-
Cllr M D Moremi	55,212	2,039	21,554	-	6,578	-
Cllr M R Pitso	44,041	2,039	17,387	7,497	5,247	-
Cllr N Selebalo	45,994	2,039	11,600	-	4,914	-
Cllr O S Moagi	16,194	2,039	6,999	-	1,929	-
Cllr M C Tehelo	16,194	2,039	6,999	-	1,929	-
Cllr Mosiapoe	41,248	2,039	16,345	4,772	4,914	-
Cllr R M Shuping	16,194	2,039	6,999	27,315	1,929	-
Cllr K Modise	131,607	24,629	59,602	52,637	23,225	6,556
Cllr D Josop	131,607	24,629	59,602	34,679	23,225	6,556
Cllr S P Segaeche	16,194	2,039	6,999	4,303	1,929	-
Cllr D C Kubang	16,194	2,039	6,999	13,141	1,929	-
Cllr M E Molawe	16,194	2,039	6,999	1,481	1,929	-
Cllr G G Moriri	16,194	2,039	6,999	12,781	1,929	-
Cllr N Mokweni	131,607	24,629	44,701	-	23,225	6,556
Cllr K T Teterne	16,194	2,039	6,999	-	1,929	-
Cllr S J Matshidiso	16,194	2,039	6,999	3,939	1,640	-
Cllr B P Matihomantho	4,723	2,039	4,967	-	708	-
Cllr O Mokgautsi	121,804	20,551	19,867	-	21,176	6,556
Cllr T H Lobega	20,416	2,039	2,032	-	2,674	-
Cllr N Nhlapo	131,607	24,629	59,602	-	23,225	6,556
Cllr M Godisamang	119,096	20,551	28,446	-	19,366	6,556
Cllr G Kaotsane	119,096	20,551	53,280	3,506	19,366	6,556

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Figures in Rand					2017	2016
27. Remuneration of councillors (continued)						
Cllr L. Gwai	119,096	20,551	28,446	7,309	19,366	6,556
Cllr S. Dioka	119,096	20,551	59,913	15,670	19,366	6,556
Cllr O. Gaobodiwe	119,096	20,551	59,913	10,626	19,366	6,556
Cllr N. Morogong	119,096	20,551	28,446	6,631	19,366	6,556
Cllr O. Earabang	119,096	20,551	28,446	-	19,366	6,556
Cllr I. Matebese	119,096	20,551	53,289	7,786	19,077	6,556
Cllr S. Mmolaeng	119,096	20,551	28,446	-	19,366	6,556
Cllr J. Katong	119,096	20,551	53,280	14,051	19,366	6,556
Cllr J. Block	119,096	20,551	28,446	-	19,366	6,556
Cllr T. Sesing	119,096	20,551	28,446	-	19,366	6,556
Cllr N. Tswere	119,096	20,551	28,446	-	19,366	6,556
Cllr K. P. Mosegedi	119,096	20,551	53,280	-	19,366	6,556
Cllr G. Sekokodie	119,096	20,551	53,280	8,433	19,366	6,556
Cllr O. Matsioloko	119,096	20,551	53,280	2,769	19,366	6,556
	3,157,639	511,253	1,153,623	321,716	500,732	144,232

In-kind benefits

The Executive Mayor has use of a Council owned vehicle for official duties.

The Mayor has a full-time secretary and driver at the expense of the municipality.

28. Finance costs

Current borrowings	2,652,757	201,738
Other interest paid	404,681	3,462,104
	3,057,438	3,663,842

29. Debt impairment

Debt impairment	-	58,544
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30. Repairs and maintenance

Repairs and maintenance	1,184,826	2,168,080
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31. Bulk purchases

Electricity	6,062,456	5,992,490
Water	4,955,297	4,103,002
	11,017,753	10,095,492

Bulk purchases are the cost of commodities not generated by the municipality, which the municipality distributes in the municipal area for resale to the consumers. Electricity is purchased from Eskom whilst water is purchased from Rand Water.

32. Contracted services

Legal fees	1,081,075	45,005
Security costs	2,070,055	-
Consultancy and other profession fees	33,146,559	9,344,855
Other Contractors	1,264,168	757,679
	37,561,857	10,147,539

Joe Morolong Local Municipality

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Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
33. Grants and subsidies paid		
Other subsidies		
Government grants	25,224,516	60,603,698
34. Depreciation and amortisation		
Other asset 1	15,271,276	57,117,989
35. General expenses		
Advertising	270,458	82,650
Auditors remuneration	3,609,890	2,830,523
Bank charges	230,265	153,431
Cleaning	126,646	133,606
Computer expenses	298,679	248,941
Stores and materials	3,370,091	6,401,834
Entertainment	197,423	208,166
Insurance	968,599	611,940
Departmental expenses	1,234,366	300,035
Conferences and seminars	144,992	54,432
IT expenses	123,145	395,874
Electricity consumption	-	26,950
Other expenses	459,541	-
Horticulture	-	18,400
Levies	65,789	-
Magazines, books and periodicals	36,567	175,199
Motor vehicle expenses	4,241	45,611
Connection cost	214,122	-
Fuel and oil	5,630,319	5,744,585
Postage cost	29,874	22,016
Printing and stationery	341,497	345,642
Protective clothing	507,211	-
Cemetery cost	948,172	-
Security (Guarding of municipal property)	-	2,062,565
Software expenses	340,885	323,964
Subscriptions and membership fees	507,089	508,745
Telephone and fax	1,098,965	3,698,801
Training	1,146,233	594,190
Office service charges	485,844	4,320,821
Uniforms	-	265,430
Tourism development	55,000	-
Pump operation cost	2,010,155	1,869,500
Small, medium and micro enterprises support	-	9,100
Ward committee expenses	434,050	1,335,909
Community participation and HIV	656,699	189,921
Name branding	205,300	99,698
Chemicals	-	1,000
Maintenance agreement-Nashua lease expense and other	2,586,428	1,315,596
Donation	-	10,000
	28,338,535	34,405,075
36. Auditors' remuneration		
Fees	3,609,890	2,723,942
Consulting	-	106,581
	3,609,890	2,830,523

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Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
37. Cash generated from operations		
Surplus	140,580,942	109,929,213
Adjustments for:		
Depreciation and amortisation	15,271,276	57,117,989
Debt impairment	-	58,544
Movements in retirement benefit assets and liabilities	179,479	223,914
Movements in provisions	404,681	(1,953,969)
Other non-cash items	-	(5)
Changes in working capital:		
Inventories	(17,076,824)	(1,604,751)
Consumer debtors	(6,452,714)	(9,721,158)
Other receivables from non-exchange transactions	(6,452,714)	(9,721,158)
Payables from exchange transactions	20,983,690	(908,733)
VAT	(17,076,824)	(1,604,751)
Taxes and transfers payable (non exchange)	(139,477)	139,477
Unspent conditional grants and receipts	(44,727)	381,030
	130,176,788	142,335,642

Joe Morolong Local Municipality

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Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
38. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Land use audit and soil capability study	198,333	-
• Planing, design and construction of traffic office KSDM Engineering	948,402	-
• Finance lease fleet assets-Ho Tla Thata	13,964,463	-
• Road construction-Tsela Tsweu	3,365,820	-
	18,477,018	-
Total capital commitments	18,477,018	-
Already contracted for but not provided for		
Authorised operational expenditure		
Already contracted for but not provided for		
• Certificate in Municipal Financial Management-ARMS	568,813	-
• MSCOA-Sebata	1,321,720	-
• Master rental agreement-Nashua	327,959	-
• Sedibeng water supply-Sedibeng	1,431,444	-
• Security cost-Maiktronix	384,071	-
• Store Items supply-Modirwa projects	266,772	-
• MK Security protection	2,165,707	-
• Consultancy agreement-Mabasotho	5,827,296	-
• Fuel and oil-Finesse	484,141	-
• Insurance-Better Brokers	9,014,129	-
	21,792,052	-
Total operational commitments	21,792,052	-
Already contracted for but not provided for		
Total commitments		
Total commitments		
Authorised capital expenditure	18,477,018	-
Authorised operational expenditure	21,792,052	-
	40,269,070	-

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Investment properties

The Municipality has entered into lease agreement with Vodacom, where by the lessor (Municipality) lets the premises to the lessee which Premises the lessee (Vodacom) hires from the lessor the use of Land for 16 June 2013 to 14 June 2018 for 5 years with option to renew for 4 and 11 months for monthly payment of R1420 with rate of 6.3 % escalation clause. The size of Land is 10m x10m.

Minimum lease payments due
- within one year

23,127

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
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39. Contingencies

As at year-end the municipality was involved in litigation claims on 26 July 2017 between Obakeng Donald Gabotshelile and Joe Morolong Local Municipality. The parties are discovering documents and will apply for trial when ready. The amount of contingent liability is R60 000.00.

Demora Modiles JV, application for tender 145/2016 Fencing of Municipality yard. Contempt of court order made in between which was dismissed. The amount of contingent liability is R1 600 000.00.

Od Gabotshelile Obo TG Thihe/Joe Morolong, Delictual claim for wrongfully causing the death of a minor child. The amount of contingent liability is R1 200 000.00.

Total contingent liabilities at 30 June 2017 amount to R2 860 000.00.

40. Related parties

Municipality does not have any related parties. No transactions occurred with related parties during the reporting period other than those at arms length as consumers of municipal services.

41. Prior period errors

1 & 2. Consumer debtors have been reconciled to agree to the debtors listing. This was done to improve debt collection and to effect proper analysis of the debtors book. In addition, the receivables from exchange transactions have been renamed consumer debtors for better presentation.

3. Property, Plant and Equipment has been restated to reflect the correct figures as per the fixed assets register. Incorrect figures were previously recorded in the accounting records.

4. The payables records included old balances which were not supported by any list and hence the creditors listing was overstated by the lumped amounts without names of any creditors. The municipality has since implemented strict creditor management and cleared all unsubstantiated balances.

5. There was a mismatch of processing in the municipality's accounting system in the previous years. This caused the ledger bank balance not to agree to the municipality's cash book balances. This has been corrected.

42. Risk management

Interest risk

As the municipality has no significant interest - bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rate.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to a fair interest rate risk. Municipality is to maintain all of its borrowings in a fixed rate instruments.

Capital risk management

The capital structure of the municipality consist of the debt, cash and cash equivalent and equity as disclosed in the Statement of Financial Position.

There are no externally imposed capital requirements

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year

Financial risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Joe Morolong Local Municipality

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Audited Annual Financial Statements for the year ended June 30, 2017

Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
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42. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. The municipality does not perform an evaluation of the credit risk relating to its customers and therefore risk limits are not set.

43. Going concern

We draw attention to the fact that at June 30, 2017, the Municipality had accumulated surplus of R 1,776,800,944 and that the municipality's total assets exceed its liabilities by R 1,776,800,944. The use of the going concern principle is appropriate.

The Annual Financial Statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

44. Events after the reporting date

The municipality is unaware of any events after the reporting date which required disclosure and or adjusting events.

45. Unauthorised expenditure

Opening balance	385,901,653	285,677,693
Current year	61,966,801	100,223,960
Unauthorised expenditure under investigation	447,868,454	385,901,653

The above unauthorised expenditure is within the votes and is as a result of overspending on various votes on the budget, therefore the total approved expenditure is overspend. This is unauthorised expenditure was tabled to council in accordance with section 23 (6) of the Budget and Reporting Regulations. The overspending is as results of capital expenditure budgeted in statement of financial performance vote that we capitazed to statement of financial position at year end.

Council is currently investigating the opening balance and current fruitless and wasteful expenditure, irregular expenditure and unauthorised expenditure which is not quantified above.

46. Fruitless and wasteful expenditure

Opening balance	1,079,623	1,064,828
Current year	2,470,763	14,795
Fruitless and wasteful expenditure under investigation	3,550,386	1,079,623

Fruitless and wasteful expenditure was due to the late payment of some of the municipalities' accounts. Council is currently investigating the opening balance and current fruitless and wasteful expenditure, irregular expenditure and unauthorised expenditure which is not quantified above.

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Figures in Rand	2017	2016
47. Irregular expenditure		
Opening balance	88,719,822	81,260,000
Add: Irregular Expenditure - current year	-	7,459,822
Irregular expenditure under investigation	88,719,822	88,719,822

The Irregular expenditure listed above arose as a result of various non-compliances to the Supply Chain Regulation as well as non-compliance to the Supply Chain Policy of the municipality. Further explanations and descriptions are listed in the Deviation registers. Council is currently investigating the opening balance and current fruitless and wasteful expenditure, irregular expenditure and unauthorised expenditure which is not quantified above.

Details of irregular expenditure – current year

-

Details of irregular expenditure condoned

-

Details of irregular expenditure recoverable (not condoned)

-

Details of irregular expenditure not recoverable (not condoned)

-

48. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year subscription / fee	3,609,893	2,723,942
Amount paid - current year	(3,609,893)	(2,723,942)
	-	-

PAYE and UIF

Opening balance	829,938	-
Current year subscription / fee	7,837,225	-
Amount paid - current year	(7,559,062)	-
	1,108,101	-

Pension and Medical Aid Deductions

VAT

VAT receivable	22,268,455	5,191,631
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VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

During the year the following Councillors' had arrear accounts outstanding for more than 90 days June 30, 2017:

None of Joe Morolong Local Municipality's Councillors have consumer accounts in arrears as at year end.

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48. Additional disclosure in terms of Municipal Finance Management Act (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

49. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the audited annual financial statements.

The following goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Deviation reasons and amounts

Lowest supplier not registered in Municipal data base as required. Services was therefore awarded to Davince Hospitality	4,400	-
The municipality is using Pitney Bowes Batsumi Enterprice as part of support for franking machine thefore we need to load credit from the same company.	14,400	-
Khathu Bulletin and Khathu Gazzette are the only two responsive and mostly read local newspaper in Joe Morolong Area in terms of coverage	9,815	-
Government Printing Works is the sole custodian of Northern Cape Province	12,500	-
Gazetting		
Black Sparrow Tadiing was only suitable accomodation available.	59,100	-
Rapa guest house no pre payment required	1,900	-
Protea Hotel sent qoutation to municipality and others were fully booked	43,362	-
PBSA (Pty) part of support for franking machine	11,487	-
Mutambashora Trading-emergency	95,500	-
Media 24-correcions in previous advert for Municipality Manager, same news papers were used	16,416	-
CFA-correcions in previuos advert for Municipal Manager, same news papers were used.	4,573	-
Lithotech sales-only accredited service provider	5,645	-
	279,098	-

50. Budget differences

Material differences between budget and actual amounts

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50. Budget differences (continued)

Material differences are those over xxx andxxx. The main reasons for the material differences are:

charges - Actual billing was higher than budgeted because due to debtor information verification and improvement in controls.

1. Service

2. Interest

trading - A large debtors book resulted in high interest being charged to consumer accounts.

3.

Other income - Income received fromresulted in other income being significantly higher than budgeted for.

4. Property rates - Higher revenue was billed due to the implementation of the supplementary valuation roll.

5. Government grants and receipts, Public contributions and transfer payments - These are similar in nature and the difference is only due to re-classifications of amounts recognised in revenue. The net difference is not material.

6. Depreciation - There is an increase in depreciation due to a number of large projects being completed and now increasing the annual depreciation charge while there were very little asset disposals.

7. Repairs and maintenance - The difference between actual expense and budget is that

8. Grants and subsidies paid -

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. For details on these changes please refer to pages to in the annual report.

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to pages to in the annual report

51. Investment revenue

Interest revenue
Bank

2,042,096 2,706,138

52. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2016

	Note	As previously reported	Correction of error	Reclassification	Restated
Inventories		1,577,652	(996,344)	1,845,739	2,427,047
Cash and cash equivalents		21,570,148	-	-	21,570,148
Vat receivable		4,290,274	901,357	-	5,191,631
Water assets		1,376,876,699	-	26,862,298	1,403,738,997
Work In Progress		144,801,444	-	664,340	145,465,784
Payables		47,027,821	-	(14,550,386)	32,477,435
Finance lease		37,669,951	(5,560,614)	-	32,109,337
Retention fees		12,906,171	-	-	12,906,171
Provisions		3,518,969	-	-	3,518,969
		1,650,239,129	(5,655,601)	14,821,991	1,659,405,519

Statement of financial performance

Joe Morolong Local Municipality

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Notes to the audited Annual Financial Statements

Figures in Rand	2017	2016
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52. Prior-year adjustments (continued)

2016

	Note	As previously reported	Correction of error	Reclassification	Restated
Revenue from exchange transactions		43,439,392	-	599,796	44,039,188
Revenue from non exchange transaction		10,784,001	(366,993)	-	10,417,008
Employee related cost		56,713,707	-	2,609,399	59,323,106
Repairs and maintenance		30,615,122	-	(28,447,042)	2,168,080
General expenditure		43,806,125	-	(6,450,670)	37,355,455
Deficit for the year		185,358,347	(366,993)	(31,688,517)	153,302,837

Cash flow statement

2016

	Note	As previously reported	Correction of error	Restated
Cash flow from investing activities				
Finance lease Finance lease obligation		37,669,951	(22,977,318)	14,692,633

Payables from exchange

Payable were adjusted with leave provision, Incorrect number of days were used to calculate leave provision and audit adjustment of R415 713.67 was processed after recalculating leave days balance as per auditing finding. Debtors with credit balance have been adjusted with R7 119 957 in journal 7 to agree debtors with credit balance with debtors listing with credit balance. Accrued bonus provision of R2 706 114. Retention fees of R12 906 171 was remapped to payables from exchange note 10 in restated AFS.

Inventory

Inventory incorrectly disclose with opening balance amount as per inventory year end stock count report. Error of inventory stock issue to the value of R1 845 739.32 was credited to inventory while never capitalized. Error was corrected by adjusting inventory with R1 845 739.32 and audit adjustment to correct inventory to agree to correct inventory closing stock as per year end stock count report

Receivables from exchange and non exchange

Receivables from exchange and non exchange were remapped, Property rates were remapped correctly to non receivables from exchange at Gross of R47 392 117 less debt impairment provision of R40 997 014. Receivables from exchange were remapped, Electricity, water, sewerage, refuse and service debtors at a gross of R94 141 136 less debt impairment of R89 980 356.

Value Added Tax

Variance between VAT input and vat 201 were adjusted with correct VAT input variance as noted in EX.100. No variance noted for month of March 2016 as indicated in the audit finding. Vat input adjustment of Journal 8 and 5 of R448 072.38, R270 223.74 respectively and journal 5 of R97 007.61 which is vat input incorrectly expensed to WIP community expense. Journal for accrual of Ram Electricity of R90 0053.27

Cash and cash equivalent

Bank and cash agreed to audited Annual Financial statement. No adjustment in bank and cash.

Property Plant and Equipment

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52. Prior-year adjustments (continued)

Infrastructure assets, water was adjusted by R26 862 298 of Borehole refurbishment and water reticulation that was incorrectly expensed to repairs and maintenance vote exception 90.

Work In Progress was adjusted by R664 340 of traffic department WIP that was incorrectly expensed to repairs and maintenance vote. Refer to exception 90.

Finance lease obligation

Finance lease obligation was restated with amount of R32 109 337 which made up of current and non current portion of R18 243 143 and R13 866 194 respectively. Initial lease obligation was raised for R46 802 970 and payment of R14 693 633 Fleet expense in general expenses was capitalized to finance lease obligation.

Revenue from exchange transactions

Rent income was mapped to other income in audited Annual Financial statements, we have remapped rent income to rental of facilities and equipment amount to R62 179. Miscellaneous income could not be traced to audited financial statements. Variance between audited annual financial statements of R599 796 is due to difference between total revenue from exchange of R 43 439 392 in audited annual financial statements and restated balance of R44 039 188 that include miscellaneous income.

Revenue from non-exchange transaction

Sundry income of R366 993 in the audited annual financial system is miscellaneous revenue. The correct amount for Miscellaneous is R599 796 as Sebata report.

Employee related cost

There was increase in related figures for employee related cost from R56 713 707 as per audited afs to R 59 323 106. Variance is due to leave provision audit adjustment of R415 714. Error was due to incorrect number of days used in calculation of leave provision. Subsistence and travel allowance was remapped from general expenditure to employee related cost amount to R3 068 459. Non pensionable allowance of R891 726 and Industrial council of 16 952, was remapped to councillor's remuneration and add to R874 774.

General Expenditure

General expenditure decreased from R43 806 125 as per audited AFS to R37 355 455 as per restated afs. Variance of R6 450 670 is due to remapping of various accounts. Advertising cost decrease from R428 292 as per audited afs to R82 650. Variance of R345 642 was remapped to printing and stationery. Commission paid, legal cost and consulting fees were remapped to consultancy fee amount to R6 682 768 and R3 031 439 respectively. Computer expenditure of R254 323 is wrong audited afs. Correct balance as per lead and Sebata was mapped to IT expenses amount to R248 941 made up of R20 500, R185 400 and R43 041.25. Store items of R5 485 165 was remapped from repairs and maintenance. IT expenses increased from R77 416 as per audited financial statement to R395 874. The increase of R318 458 is due to software expenses mapped to IT expenses. Training cost increased from R310 366 as per audited afs to R594 190. The increase is due development cost that has been remapped to training and development cost. Departmental cost of R3 068 459 was remapped to employee related cost. Maintenance agreement, community participation, donation and printing station was remapped amount to R1 315 596, R189 921, R10 000 and R345 642 respectively.

Finance Lease obligation

Cash flow error in the cash flow statement as per audited AFS of R37 669 951 decrease to R14 692 633. Decrease of R22 977 318 is due to error last financial year where Finance lease obligation was incorrectly disclosed to cash flow statement. Actual payment made to finance lease obligation amount to R 14 692 633.

53. Consumer deposits

Heading	68,579	400
Deposits received		